

SUPERANNUATION – CHOICE OF FUND

WHAT EMPLOYERS NEED TO KNOW

Super choice will finally become a reality on 1 July 2005, many years after the initial proposal. The following information provided by our affiliated Financial Advisers, Gannon Growden Schonell, provides an overview of legislation and the impact on employers.

What is it and when does it start?

The Choice of Fund legislation takes effect on 1 July 2005.

By 29 July 2005, every current employee who is eligible will have to be offered a choice of super fund by their employer. After that, whenever a new employee (who is eligible) commences work, they must be offered the choice by their employer within 28 days. Following this, an employee can choose a fund once a year.

Any complying superannuation fund or retirement savings account can be chosen by an employee. The fund could include an in-house corporate fund, a corporate master trust, a retail personal fund, an industry fund, a wrap/master trust or a self managed superannuation fund. The only requirement is that it must be willing to accept contributions from the person's employer.

Who is affected?

It is estimated that approximately 4.8 million working Australians (approximately 50%) will be able to choose their own super fund. However, the new legislation specifically excludes:

- Employees covered by a State Award that specifies a super fund.
- Employees covered by a Certified Agreement that specifies a super fund.
- Employees covered by an Australian Workplace Agreement that specifies a super fund.
- Government employees in unfunded public sector super schemes.
- Government employees who are members of the CSS or the PSS.

The employers of individuals covered by these exclusions will be able to make contributions according to the relevant Award, agreement etc and still be in compliance with the Choice rules.

What is included?

The Choice legislation does not apply to all superannuation contributions.

Although it applies to Superannuation Guarantee (SG) contributions, it does not cover employer voluntary contributions, salary sacrifice or even member voluntary contributions. In practice however, it is anticipated that where Choice is provided it will apply to all types of contributions.

Existing superannuation balances are not part of the Choice legislation, but they are covered under separate portability rules. Please note it is the employee's responsibility to ensure that any balances are transferred.

How does an employee choose their fund?

An employee can choose a fund in two ways.

- 1) By completing the Standard Choice Form given to them by their employer, or
- 2) Providing a written notice to their employer requesting that contributions are made to the employee's chosen fund.

Attached is a copy of the Standard Choice form issued by the Australian Taxation Office. This form must be provided by an employer to all employees by 29 July 2005 or within 28 days of a new employee commencing employment. It must state that the employee can choose any fund and include the name of the employer's default fund plus any additional information required under the regulations.

What happens if a person doesn't make a Choice?

If an employee doesn't make a choice or chooses a fund that the employer cannot contribute to, then the employer can make contributions to their default fund. The default fund is generally one selected by the employer (although it may also be specified in some Federal Awards). The default fund must also meet the minimum requirements of death cover to its members, as follows.

The minimum amount of death cover is either a level of cover based on a premium of \$0.50 per week or an age based scale as follows.

AGE OF EMPLOYEE	MIN LEVEL OF DEATH COVER
20–34	\$50,000
35–39	\$35,000
40–44	\$20,000
45–49	\$14,000
50–55	\$7,000

What are the employer penalties for not complying with Choice legislation?

An employer who fails to offer a choice to employees or who contributes to a fund other than the one chosen by an employee will be subject to a financial penalty. The amount of this penalty will be effectively 25% of any SG contributions made to a fund other than the one chosen by an employee, up to a maximum of \$500 per employee per quarter. Like the existing SG penalties, this extra amount will be collected by the ATO and paid to the fund of the relevant employee and will not be tax deductible to the employer.

Employer Check List

1) Check whether your employees must be given choice.

Review your employee's awards and employment agreements to determine whether they are Federal or State and then whether they specify a fund.

2) Decide whether to provide choice to everybody.

You need to decide whether to simply comply with the law and provide a choice only to those employees you have to or provide choice to everybody.

3) Decide whether you will limit your choice.

Will you limit your offering to SG contributions or extend it to salary sacrifice and voluntary contributions.

4) Review your default fund.

This is an important step to confirm that your existing arrangements are appropriate and competitive. Make sure your default fund is attractive as possible.

5) Confirm your administration processes.

Decide how you will administer your obligations under Choice of Fund, in particular the possibility of having to make super contributions to multiple funds.

In many cases your payroll provider or superannuation fund will be able to offer a clearing house solution.

6) Offer employees assistance.

Employers must be very careful not to provide any level of advice to employees. You may wish to consider arranging for experienced and qualified financial advisers to offer education sessions/information to your employees.

7) Communicate with your employees.

Prepare your employee communication that you will be sending out from 1 July.

Need further information ?

If you require advice in any of the areas raised above please contact BQK on 9256 2777 or Paul Holly of Gannon Growden Schonell directly on 9481 5222.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential.



Choice of superannuation fund Standard choice form – information for employees

You can choose the superannuation fund or retirement savings account (referred to below as superannuation funds) to which your employer will make future superannuation guarantee contributions (9%).

Option 1:

You do not have to choose a fund.

If you do not make a choice, your employer's contributions will be paid into the fund that your employer has chosen (see Part A on the reverse side of this form). This may not be the same as your current fund.

Your employer's chosen fund may be suitable for your needs. You can choose a different fund later if you like.

If you do not want to choose a fund, you do not have to complete this form.

❗ Your employer is not liable for the performance of superannuation funds that you choose or they choose on your behalf.

❗ Do not seek financial advice from your employer unless they are licensed to provide it.

➤ MORE INFORMATION

You can get more information about choice of superannuation fund or superannuation in general from:

- www.superchoice.gov.au, or
- by phoning **13 28 64**

If you do not speak English well and want to talk to an Australian government officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

➤ TIPS FOR COMPARING FUNDS

Fees

Most funds charge fees. Differences in the fees funds charge can have a big effect on what you may have to retire on. This effect may be more than you think and for this reason you need to consider what fees are being charged. For example, your final return could be reduced by up to 20% over 30 years if your total amount of fees and costs are 2% rather than 1% (eg, from \$100,000 to \$80,000). Some funds may also charge an exit fee if you leave the fund.

Death and disability insurance

Your current fund may insure you against death or an illness or accident that makes you unable to return to work. Other funds may not offer insurance, or you may have to pass a medical examination before they cover you. Check if you'll be covered in any new fund, and the costs and amount of cover, before leaving your current fund.

Option 2:

Choose a fund

You can choose the superannuation fund where you want your future employer contributions to be paid.

Your employer is only required to accept one choice every 12 months.

Step 1

Gather information – work out what's best for you

You will need to find out what superannuation options are available to you.

Find out about the features and benefits of your current fund, the fund chosen by your employer and any other funds you are considering. Your current fund may be different to the fund chosen by your employer.

➤ The tips section highlights key issues you should consider when comparing funds.

Step 2

What do I need to tell my employer?

Give your employer details of your chosen fund by **completing Part B** of this form or by a written statement including the necessary information. This information may be provided by your chosen fund.

Part A shows details of your employer's superannuation arrangements. This includes the fund that your employer has chosen to make all future superannuation guarantee contributions to. If your employer has changed funds recently, the previous fund will also be shown. You may choose to remain in this previous fund.

Step 3

What happens to any superannuation I have in existing funds?

Any money you have in existing funds will remain there unless you make arrangements to transfer it (roll over) to another fund. Check the impact of any exit fees or benefits you may lose before leaving the fund. Your employer cannot do this for you.

Investment choice

Some funds let you choose where the fund will invest your super. Some choices offer higher returns, but with a higher risk that investments may go down as well as up. Other choices offer greater security but with lower expected returns. Choose the level of risk and return that you are comfortable with.

Investment performance

Superannuation is a long term investment for your retirement, so its investment performance needs to be judged over the long term. Short term performance, whether good or bad, may not be repeated. There is no guarantee that a fund that has performed well in the past will do so in the future.

The information you'll need to make these checks is in each fund's product disclosure statement which you can get from the fund. For further information on choosing a fund go to the website www.superchoice.gov.au or phone **13 28 64**.



Choice of superannuation fund Standard choice form

Part A: Employer to complete

➤ Give this form to your employee after you have completed Part A.

1 Employer name

2 Employer superannuation guarantee contributions will be made to the following fund:

Fund name

Superannuation product identification number (if applicable)

For the product disclosure statement for this fund (if applicable) Phone

Fund website

3 Employer superannuation guarantee contributions have previously been made to: (if different to above)

➤ If the employer fund has not changed please write 'as above' in fund name box below.

Fund name

Superannuation product identification number (if applicable) Phone

Fund website

4 Employer contributions:

Superannuation contributions are currently made at a higher level than the required 9% Yes No

If Yes, superannuation contributions will continue at this higher level if the employee chooses a fund other than the fund named in part A question 2 Yes No

ⓘ Note that this statement does not alter an employer's legal obligations (if any) relating to future payments.

Part B: Employee to complete – ONLY IF MAKING A CHOICE

1 I request that all future superannuation guarantee contributions be made to:

my employer's previous superannuation fund named in part A question 3 ➤ Go to question 4 below.

my own choice of fund ➤ Complete questions 2, 3 and 4 below.

2 Your chosen fund details:

Fund name

Membership No. (if applicable)

Account name

Fund Australian business number (ABN) (if applicable)

Superannuation product identification number (if applicable) Phone

3 I have attached:

- a letter from the trustee stating that this is a complying fund and (for a self managed superannuation fund) a copy of documentation from the Tax Office confirming the fund is regulated
- written evidence from the fund they will accept contributions from my employer, and
- details about how my employer can make contributions to this fund.

4 Employee name

Employee No. (if applicable)

Date / /

Signature

➤ Return this form to your employer. Do not send this form to the Tax Office or to your superannuation fund.

Part C: Employer only

Date accepted / /

Processed / /